

# Message from the President



President and Chief Executive Officer

*M. Matsuo*

For the fiscal year ended March 31, 2013, exports continued to be sluggish due to the influence of slowdown of the economy overseas and the prolonged appreciation of the yen, and there was concern that the economy might decline even further. However, a sense of expectation for the urgent economic countermeasures implemented by the Japanese government prompted a depreciation of the yen and an increase in stock prices, and supported by an improvement in the outlook of consumers, the Japanese economy began to show signs of a gradual recovery.

In the domestic construction industry, public investment showed steady progress due to the Special Account Spending on Reconstruction from the Great East Japan Earthquake and the large supplementary budget. Investments in the private sectors began to show signs of having bottomed out as corporate profits have improved. However, because of such issues as the decline in profitability from construction work due to increases in unit labor costs and costs for mechanical equipment and materials brought about by the greater volume of recovery and restoration work from the earthquake-related disaster,

and intense competition over orders, the environment surrounding the construction industry remains harsh.

## Performance for the Fiscal Year

Amidst these harsh conditions, the Toa Corporation Group has been carrying forward its Mid-term Business Plan (from FY2010 to FY2012), in which the basic principle of "bringing together the strengths of its technologies, its organization and its individuals, to identify issues and take concrete measures in order to

bolster its revenue base, with the aim of achieving sustainable growth” is set forth. Furthermore, the Toa Corporation Group positioned “secure the volume of projects, and improve profitability and quality” as its most important issue for the fiscal year just ended, and to fulfill its social responsibilities as a contractor, undertook efforts for the recovery and restoration of the areas devastated by the Great East Japan Earthquake.

Because of an increase in the volume of orders received, the consolidated results for the Toa Corporation Group for the fiscal year just ended showed an increase from the previous fiscal year of 18.4% to ¥171,300 million for net sales, with the breakdown described below.

#### **[Domestic Civil Engineering Business]**

In addition to strengthening the capabilities for taking part in the comprehensive evaluation bidding system, offering proposals that respond to the needs of the customers, reducing costs, and carrying forward other measures, efforts were focused on the rehabilitation of ports and other works for the restoration of areas devastated by the Great East Japan Earthquake. As a result, net sales for the

consolidated fiscal year just ended totaled ¥79,890 million on an increase of 39.0% over the previous consolidated fiscal year, and segment profit totaled ¥3,893 million on an increase of 73.2% over the previous consolidated fiscal year.

#### **[Domestic Construction Business]**

In addition to strengthening the capabilities for taking part in projects in the field of non-residential facilities in the private sector, such as warehouses and distribution facilities, efforts were focused on medical and welfare facilities, as well as on rehabilitation work for buildings that suffered earthquake-related damage. As a result, net sales for the consolidated fiscal year just ended totaled ¥43,176 million on a decrease of 2.7% from the previous consolidated fiscal year. Due to the declining profitability of some construction work, segment loss totaled ¥2,070 million on segment loss was ¥594 million for the previous consolidated fiscal year.

#### **[Overseas Business]**

Efforts were made for a gradual expansion of business, primarily in Southeast Asia. Due to advances made in work-in-progress and the effect of the depreciation of the

yen, net sales for the consolidated fiscal year just ended totaled ¥28,549 million on an increase of 12.3% over the previous consolidated fiscal year, and segment profit totaled ¥3,131 million on an increase of 14.3% over the previous consolidated fiscal year.

#### **[Others]**

Net sales for the consolidated fiscal year just ended totaled ¥9,367 million on an increase of 7.1% over the previous consolidated fiscal year, and segment profit totaled ¥426 million on an increase of 463.1% over the previous consolidated fiscal year.

As a result, because of an increase in gross profits produced by an increase in net sales, in addition to a decrease in general and administrative expenses, the operating income of the entire group exceeded ¥2,400 million on an increase of 71.0% over the previous fiscal year, while ordinary profit exceeded ¥2,200 million on an increase of 118.9% over the previous fiscal year, due to such factors as a decrease in foreign exchange losses resulting from the depreciation of the yen. However, net income was over ¥200 million, which was a

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decrease of 69.1% from the previous fiscal year, due to an increase in tax expenses resulting from the amount of foreign taxes that exceeded the limit for tax credit in corporate inhabitant taxes and other factors.

Based on the abovementioned consolidated financial results for the Toa Corporation Group, to ensure that the Company is able to maintain the soundness of its financial standing, which is essential for meeting the challenges of the harsh business environment in the future, dividends will not be paid for the fiscal year just ended. All of us, the members of the management of the Company, would like to offer our sincerest apologies to the shareholders, and taking into consideration the circumstances behind this decision, we ask for their patience and understanding in this matter.

## Outlook for the next Fiscal Year

In the domestic construction industry, public works projects that are focused on restoration and disaster prevention measures will continue to be executed one after another, and plans are being considered for developing facilities, such as

international strategic ports, to strengthen Japan's competitiveness internationally, and facilities that supply renewable energy, which is positioned as a growth industry. However, increases in labor costs and in costs for mechanical equipment and materials brought about by recovery and restoration work from the earthquake-related disaster will be factors that lead to a decline in the profitability of projects.

In the overseas construction industry, the trend worldwide for larger container ships and the growing demand for LNG is leading to expectations that demand for projects to develop infrastructure, particularly in Southeast Asia, where demand continues to be robust, will continue in such areas as developing deepwater container terminals and constructing thermal power plants, which are areas where the Toa Corporation Group has accumulated vast experience.

## Management Policies for the next Fiscal Year

Improving the profitability of our domestic construction business is an urgent matter for the Company. Furthermore, in the field of marine civil engineering, which is the core business of the Company, competition with

other companies is expected to become even harsher. Therefore, the necessity for the Company to distinguish itself from these competitors and strengthen our competitive edge by digging deep into our technological assets is a management issue that requires our utmost efforts now and into the future.

Based on the management environment and management issues described above, the Toa Corporation Group has formulated its Mid-term Business Plan (from FY2013 to FY2015).

## Outline of New Mid-term Business Plan (from FY2013 to FY2015)

### 1.Mission of Mid-term Business Plan

Redistribute management resources, endeavor to strengthen the management foundation, and fulfill its social responsibilities as a corporation.

### 2.The Basic Principles of the Mid-term Business Plan

- Firmly maintain the scale of business
- Endeavor to increase profitability
- Enhance customer-oriented approach

### 3. Policy of Each Division

#### ■ Domestic civil engineering business

- \*Firmly establish its position as the top company in all types of bodies of water, including the sea and rivers
- \*Strategically and efficiently utilize large ships for work
- \*In the area of land-based work, thoroughly and carefully selecting projects and focusing resources to secure volume of projects and profits

#### ■ Domestic construction business

- \*Secure targeted volume of projects, with priority being placed on the profitability aspect of the project
- \*Increase the proportion of orders received for sole-source contracts, as well as for design and construction projects
- \*Consolidate functions to the East Japan Block and the West Japan Block to make efficient use of human resources

#### ■ Overseas business

- \*Making Southeast Asia the base, gradually expand business operations with an eye on global markets
- \*Strategically carry forward activities for receiving orders, with marine civil

engineering construction and plant construction as the core businesses

- \*Undertake efforts to strengthen the project management capabilities

#### ■ Efforts Across Each of the Divisions

- \*Improve sales capabilities by strengthening the ability to collect information and offer proposals, and enhancing collaboration between the various divisions as well as between Japan and other countries
- \*Precisely grasp the needs of the customers and offer proposals providing appropriate technical solutions
- \*Undertake efforts to improve customer satisfaction by carrying out high-quality work
- \*Undertake efforts to further deepen technologies for preventing and reducing damage from disasters, and support disaster countermeasures by customers
- \*Focus efforts on developing technologies for disaster prevention, renewable energies, marine resources development, rehabilitation of infrastructure, etc.

#### ■ Business Management and Personnel Measures and Other Matters

- \*Build a safety-oriented corporate culture in which "Put Priority on Safety Above All Else" is its fundamental policy
- \*Systematically develop human resources

(in various divisions, in various fields, doing various jobs) that can shoulder the responsibility of leading the next generation

- \*Undertake efforts to further reduce indirect costs, with even restructuring being a possibility
- \*Undertake efforts at all of the companies in the Group to strengthen collaboration and improve the ability to generate profits, thereby increasing the value of the corporate Group
- \*Continuously reduce interest-bearing debt and maintain the soundness of the financial structure
- \*Undertake efforts to further develop and strengthen the risk management system

As all of the members of the management are committed to unite as one in order to carry out the measures described above, we would be grateful for the continued understanding and support of all our shareholders.

June 2013